

Message Text

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ACTION EUR-12

INFO OCT-01 EA-10 ISO-00 AID-05 CIAE-00 COME-00 EB-08
FRB-03 INR-10 NSAE-00 ICA-11 XMB-02 OPIC-03 SP-02
LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-07 CEA-01
/101 W

-----120314 082028Z /64

R 081833Z JUN 78
FM AMEMBASSY BONN
TO SECSTATE WASHDC 9234
DEPARTMENT TREASURY
INFO AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY TOKYO

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USEEC AND USOECD ALSO FOR EMBASSIES

E.O. 11652: N/A
TAGS: ECON EFIN GW
SUBJECT: REVISED EMBASSY PROJECTION FOR
1978 FRG CURRENT ACCOUNT

REF: BONN 9847

1. FOLLOWING IS OUR REVISED FRG CURRENT ACCOUNT
PROJECTION FOR 1978, TAKING ACCOUNT OF DEVELOPMENTS
DURING THE FIRST FOUR MONTHS (SEE BONN 9847):

FRG CURRENT ACCOUNT 1978
(FIGURES IN DM BILLION)

CHANGE IN

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	1977	1978	PERCENT
	----	----	-----
EXPORTS F.O.B.		273.5	285.5 4.4
IMPORTS C.I.F.		235.1	247.6 5.3
TRADE SUPPLEMENT 1/		-1.4	
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TRADE BALANCE		37.0	37.9

EXPORTS OF SERVICES	66.0	69.0	4.5
IMPORTS OF SERVICES	76.4	80.2	5.0
SERVICES BALANCE	-10.3	-11.2	
BALANCE OF GOODS			
AND SERVICES	26.7	26.7	
TRANSFERS	-17.9	-18.4	
CURRENT ACCOUNT	8.7	8.3	

FIGURES DO NOT ALWAYS ADD UP DUE TO ROUNDING.

1/ THE TRADE SUPPLEMENT ADJUSTS FOR TRANSIT TRADE, WAREHOUSING AND DIFFERENCES IN PRICE (DUE TO EXCHANGE RATE CHANGES) SHOWN FOR GOODS IN TRADE STATISTICS (TIMES WHEN GOODS CROSS BORDER AND ACTUAL TIME OF PAYMENT). THE ADJUSTMENT HAS BEEN GENERALLY NEGATIVE, BUT DURING FIRST QUARTER OF 1978 WAS POSITIVE BY DM 0.8 BILLION. FOR 1978 THE TRADE SUPPLEMENT HAS NOT BEEN ESTIMATED SEPARATELY BUT IS INCLUDED IN EXPORT AND IMPORT ESTIMATES.

2. ASSUMPTIONS ON VOLUME, VALUES AND EXCHANGE RATES
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A. EXPORTS OF GOODS

GERMAN EXPORTERS, FEARFUL OF LOSING MARKET SHARES DUE TO THE PRICING EFFECTS OF THE APPRECIATION OF THE DM, REDUCED EXPORT PRICES DURING THE FIRST FOUR MONTHS OF THIS YEAR. IN APRIL 1978 EXPORT PRICES (AVERAGE VALUES) WERE ROUGHLY THREE PERCENT BELOW THEIR DECEMBER 1977 LEVEL. FOR THE REST OF THIS YEAR, WE ASSUME AN APPROXIMATE MAINTENANCE OF AVERAGE EXCHANGE RATES OF THE FIRST FOUR MONTHS OF THE YEAR AND WE ESTIMATE AN INCREASE IN DM TERMS OF GERMAN EXPORT PRICES OF ABOUT THREE PERCENT BETWEEN NOW AND DECEMBER. THIS WOULD RESULT IN 1978 AVERAGE EXPORT PRICES BEING 0.6 PERCENT BELOW 1977 AVERAGE EXPORT PRICES. ASSUMING AN APPROXIMATE MAINTENANCE OF THE GERMAN SHARE IN WORLD TRADE AND A VOLUME INCREASE IN GERMAN EXPORTS OF ABOUT FIVE PERCENT, THIS YIELDS A 4.4 PERCENT INCREASE IN EXPORTS IN CURRENT PRICES FOR 1978 OVER 1977.

B. IMPORT OF GOODS

DURING THE FIRST MONTHS OF 1978 IMPORT PRICES DECLINED IN DM TERMS, BUT BY APRIL HAD RETURNED TO

APPROXIMATELY THEIR DECEMBER LEVEL. AGAIN ASSUMING
MAINTENANCE DURING THE REST OF THIS YEAR OF AVERAGE
EXCHANGE RATES EQUIVALENT TO THOSE DURING THE FIRST

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FOUR MONTHS, WE THINK IMPORT PRICES IN TERMS OF DM
MIGHT INCREASE BY ABOUT FIVE PERCENT BETWEEN NOW AND
DECEMBER. FOR 1978 AS A WHOLE THIS WOULD RESULT
IN AVERAGE IMPORT PRICES ABOUT 0.7 PERCENT BELOW THEIR
1977 AVERAGE. ASSUMING A VOLUME INCREASE OF ABOUT
SIX PERCENT FOR THE YEAR AS A WHOLE (AS OPPOSED TO
7.5 - 8.0 PERCENT DURING THE FIRST FOUR MONTHS), THIS
YIELDS A 5.3 PERCENT INCREASE OF GERMAN IMPORTS AT
CURRENT PRICES (IN DM) FOR 1978 OVER 1977.

C. SERVICES

THE EXPORT OF SERVICES STAYED PRACTICALLY CONSTANT
IN VOLUME LAST YEAR. IN VALUE TERMS IT INCREASED IN
1977 BY 5.6 PERCENT IN BALANCE OF PAYMENTS STATISTICS
(3.1 PERCENT IN GNP STATISTICS). FOR 1978 WE ASSUME

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A SLIGHT INCREASE IN VOLUME AND AN INCREASE OF 4 - 5 PERCENT IN CURRENT PRICES.

THE IMPORT OF SERVICES INCREASED IN 1977 BY 4.4 PERCENT IN VOLUME TERMS AND BY 10.4 PERCENT IN VALUE TERMS IN BALANCE OF PAYMENTS STATISTICS (9.0 PERCENT IN THE GNP STATISTICS). THE IMPORT OF SERVICES DURING 1977 WAS AFFECTED BY LARGE REPATRIATION OF INCOME OF FOREIGN SUBSIDIARIES CONNECTED WITH THE CHANGE IN THE GERMAN CORPORATE INCOME TAX. FOR 1978 WE ASSUME HIGHER TOURIST EXPENDITURES, MORE THAN OFFSET BY LOWER INCOME REPATRIATION, GIVING US A VOLUME SLIGHTLY BELOW THAT IN 1977. IN VALUE TERMS WE PROJECT SERVICE IMPORTS TO INCREASE BY ABOUT FIVE PERCENT.

D. TRANSFERS

WE ASSUME A VERY SLIGHT INCREASE DUE TO HIGHER GOVERNMENT TRANSFERS TO THE EC LARGELY OFFSET BY LOWER FOREIGN WORKERS REMITTANCES.

3. IN DOLLAR TERMS WE PROJECT THE 1978 GERMAN CURRENT ACCOUNT TO DEVELOP APPROXIMATELY AS FOLLOWS, USING THE SAME EXCHANGE RATE ASSUMPTION AS IN THE COMPONENT PROJECTIONS, I.E., MAINTENANCE DURING THE LAST SEVEN MONTHS OF THE YEAR OF THE AVERAGE EXCHANGE RATE OF THE FIRST FOUR MONTHS WHICH YIELDS A 1978 AVERAGE EXCHANGE RATE OF \$1 EQUALS DM 2.07 (FOR 1977 THE AVERAGE EXCHANGE RATE WAS \$1 EQUALS DM 2.3217):

FRG CURRENT ACCOUNT 1978
(FIGURES IN \$ BILLION)

1977 1978

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EXPORTS F.O.B.	117.8	137.9
IMPORTS C.I.F.	101.3	119.6
TRADE SUPPLEMENT	-0.6	
TRADE BALANCE	15.9	18.3
EXPORTS OF SERVICES	28.4	33.3
IMPORTS OF SERVICES	32.9	38.7

SERVICES BALANCE	-4.4	-5.4
BALANCE OF GOODS AND SERVICES	11.5	12.9
TRANSFERS	-7.7	-8.9
CURRENT ACCOUNT	3.7	4.0

FIGURES DO NOT ALWAYS ADD UP DUE TO ROUNDING.
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